More warnings of an Australian property market crash

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Prominent commentators and financial institutions have continued to warn that a slump in property prices, especially in Sydney and Melbourne, could mark the beginning of a sharp reversal throughout Australia's highly inflated housing market, posing the risk of a deep financial crisis.

These fears have been compounded by indications that economic growth is already slowing. Australian Bureau of Statistics data released on Wednesday showed that the gross domestic product (GDP) grew by just 0.3 percent in seasonally adjusted terms during the three months to September.

This rate, the lowest in two years, was substantially below forecasts of 0.6 percent. Sharp falls were registered in construction, and household spending was lower than anticipated, amid stagnant or declining wages. The decline would have been greater without government investment, especially in infrastructure projects geared to big business, which added 0.2 percent to real GDP.

Analysts have stated that declining house prices will hit growth further next year. Paul Dales, chief Australia and New Zealand economist at Capital Economics, told *Business Insider* that the September data, "sets the tone for 2019," adding that "the full effects of falling house prices and tighter credit conditions have yet to be felt."

Figures compiled by CoreLogic, which analyses property data, found that during November, median house and apartment prices in Sydney recorded their biggest monthly slump in 14 years—down 1.3 percent. Median Melbourne prices fell by 0.9 percent.

The national monthly decline was 0.7 percent, spearheaded by the country's two largest cities, which account for around 55 percent of total housing value. Sharp falls were registered in Perth, while prices were either stagnant, or registered modest increases in other state capital cities.

The latest falls take the overall decline in Sydney's property prices, since the market began to fall in July 2017, to 9.7 percent. Prices in Melbourne have dropped by 5.8 percent since November last year.

Tim Lawless, CoreLogic's head of research, warned the fall in Sydney prices could reach 15 percent. He told the Australian Broadcasting Corporation (ABC) "the rate of decline is starting to gather a little bit of momentum now." Originally "fuelled by tighter credit conditions for investors," it was spreading to owner-occupiers.

Other analysts have predicted greater falls. Martin North, the head of Digital Finance Analytics, told the *Daily Mail* on Wednesday that his "least worst scenario, assuming there's no international crisis, is somewhere between 20 and 25 percent peak to trough on average."

Referring to rising global economic and geopolitical turmoil, however, North said: "If we get shenanigans like the stock market in the US all over the place, we've got issues in Europe with Brexit, then we could be looking at 40 percent." North predicted that the market could then remain in the doldrums for up to a decade.

Commentators have noted that the market downturn is taking place in economic conditions that are worse than during previous property falls, including the recession of 1989 to 1991.

Household debt to income now stands at a record 189 percent, more than doubling over the past 30 years, placing working class families under severe financial strain.

Following the collapse of the mining and resources boom, and a continuing decline in investment in manufacturing and industry, Australian capitalism relies more on property than ever before.

Earlier this year, Bloomberg argued that mortgage debt held by Australian banks is equivalent to roughly 80 percent of GDP. Property debt makes up more than 60 percent of the major banks' assets. Their exposure means that an increase in mortgage defaults could lead to a new financial crisis.

Global credit ratings agency Moody's this week warned that the Commonwealth Bank and Westpac were particularly exposed to any further deterioration of the property market.

Both banks have heavily promoted interest-only loans, whereby borrowers are not required to make payments on the principal for a fixed period, often seven years. Such loans account for a third of all the Commonwealth Bank's outstanding loans. Westpac's figure is 35 percent. Many of the loans are expected to mature in 2019–2020, so the borrowers will have to start making much larger repayments.

Moody's predicted that mortgage defaults and delinquencies would rise next year, as a result of "low-wage growth not keeping pace with rising household expenses, such as fuel; hikes in mortgage interest rates by banks; and the conversion of interest-only mortgages to principal and interest loans… Australia's very high level of household leverage adds to these risks by making households vulnerable to an economic or housing market shock."

The decline in house prices over the past year has been caused, in part, by the introduction of tougher regulations, especially on interest-only loans. Approvals of interest-only loans have fallen by 57 percent over the past 12 months.

Having promoted a frenzy of financial speculation through "negative gearing" tax subsidies for investors, capital gains tax concessions and other measures, any effort by the government to rein in the market could lead to a precipitous crash.

The Reserve Bank continued to hold official interest rates at the record low of 1.5 percent this week. It has stated, however, that rates will likely rise over the next period, amid rate hikes around the world.

This will exacerbate a deepening social crisis. Already, property price declines mean that growing numbers of households are servicing mortgages greater than the value of their homes.

An estimated one million households are suffering mortgage stress—their household income is insufficient to cover ongoing expenses. Modelling has indicated that some 60,000 of these households are at risk of defaulting on their mortgage over the next 12 months.

Analysis by the ABC in September found that a 0.5 percent interest rate rise would increase the number of households suffering mortgage stress from around one in four to one in three. A 2 percent increase would put half of all mortgaged households into stress.

The housing crisis is a graphic expression of the growing social divide. While the banks and property developers have made unprecedented fortunes since the 2008 global financial crisis, encouraged by Labor, the Liberal-Nationals and the entire political establishment, that enrichment has imperiled millions of working people, who would be the hardest hit in the event of a crash.